

To: Chairman Gilbert and Members of the House Tax Policy Committee

From: Representative Lisa L. Howze, 2nd District (D-Detroit)

Date: Wednesday, September 12, 2012

RE: Testimony on House Bill 5806

To Chairman Gilbert and Members of the House Tax Policy Committee,

For the record, I am state Representative Lisa Howze from the 2nd House District in Detroit, Michigan. I would like to thank you for this opportunity to testify before you today on House Bill 5806. I am proud to say that I have bi-partisan support for this bill with a total of 40 of my colleagues signing on as co-sponsors, and 11 of those co-sponsors serve on this committee. So again, I thank each of you.

I would like to share with you some background information about why I am sponsoring this piece of legislation, but first let me to say up front -- this IS NOT a new tax nor is it a MANDATE on any business/employer to withhold local income taxes if it is not already doing so. Instead, this legislation provides a method for local municipalities that levy a local income tax to improve collection of income tax revenues by identifying individual taxpayers who are subject to a local income tax and therefore are responsible for filing a local income tax return at the end of each tax year. The state's Treasury department will help to facilitate this process by modifying the state of Michigan tax return to request certain information from the taxpayer.

BACKGROUND

In the state of Michigan, there are 22 local municipalities, including the city of Detroit, that levy a city income tax in accordance with an income tax ordinance under PA 284 of 1964. While my bill addresses a concern that all 22 applicable local municipalities have, I will use the city of Detroit as a point of reference.

Therefore, in the city of Detroit, what we have found is that there are taxpayers who are residents of the city of Detroit who are employed outside of the city. Not all employers outside of the city withhold local income taxes for employees who may reside in a city, which levies an income tax. As a result, the local government does not receive quarterly income tax revenues for these taxpayers that are remitted as part of employers' quarterly payroll tax filings. That local government therefore must rely on the taxpayer who is subject to filing a local income tax return at the end of each tax year to remit payment of any tax liability owed.

PROBLEM

The issues posed by these set of facts are as follows:

1. Timely recognition and collection of income tax revenues earned
2. Identification of taxpayers whose employers do not withhold a local income tax

SOLUTION

For the past three to nine months, I have been working with Treasury and the governor's office to develop a solution to address the income tax collection issue that each of the 22 cities that levy a local income are subject to, and especially in the city of Detroit, which has reported an estimated \$150 million in uncollected taxes.

In the original version of the bill, I included language that would require the taxpayer, whether they were a resident or non-resident of the city that levies an income tax, to report the following on their state tax return, beginning with the 2013 tax year:

1. Whether or not their employer withholds local income taxes from their earnings;
2. The current tax year's computed tax liability , if any
3. The previous tax year's computed tax liability, and whether it had been remitted.

By working together with Treasury, the language that has been offered in the H-1 substitute is what we have agreed to require in the law.

Resident

For a taxpayer who is a resident of that city that has adopted the income tax ordinance, they must report:

- a. The city where the taxpayer resides,

- b. The name and federal identification number of each employer,**
- c. The amount of compensation earned during that tax year from each employer,**
- d. The amount of city income tax withheld from the taxpayer's compensation for that tax year.**

Non-resident

For a taxpayer who is a non-resident of that city that has adopted the income tax ordinance, they must report:

- a. The city where the work or services were performed,**
- b. The name and federal identification number of each employer,**
- c. The amount of compensation earned during that tax year from each employer,**
- d. The amount of city income tax withheld from the taxpayer's compensation for that tax year.**

Therefore, Mr. Chairman and members of the committee, I ask your favorable support in reporting out the H-1 substitute for HB 5806. I thank you for your time and consideration.

Are there any questions?